SEC Enforcement Case Summary
Morgan Stanley Charged with Misusing Information in Block Trading Business

On January 12, 2024, the Securities and Exchange Commission (***SEC***) settled charges against investment banking giant Morgan Stanley & Co. LLC, and the former head of its equity syndicate desk, Pawan Passi, based on a multi-year fraud involving the disclosure of confidential information about the sale of large quantities of stock known as "block trades." The SEC also charged Morgan Stanley with failing to enforce its policies concerning the misuse of material non-public information related to block trades.

From at least June 2018 through August 2021, Passi and a subordinate on Morgan Stanley's equity syndicate desk disclosed non-public, potentially market-moving information concerning impending block trades to select buy-side investors despite the sellers' confidentiality requests and Morgan Stanley's own policies regarding the treatment of confidential information. Morgan Stanley and Passi disclosed the block trade information with the understanding that those buy-side investors would use the information to "pre-position" by taking a significant short position in the stock that was the subject of the upcoming block trade. This pre-positioning reduced Morgan Stanley's risk in purchasing block trades.

It was also found that Morgan Stanley failed to enforce information barriers to prevent material non-public information involving certain block trades from being conveyed by the equity syndicate desk, which sits on the private side of Morgan Stanley, to a trading division on the public side of the firm. As a result, the firm was unable to sufficiently scrutinize whether trades by that division, placed while the equity syndicate desk was in discussions with selling shareholders regarding potential block trades, were based on such confidential discussions.

The SEC's order concerning Morgan Stanley finds that the firm willfully violated Sections 10(b) and 15(g) of the Securities Exchange Act of 1934 and Rule 10b-5(b) thereunder, censures the firm, and orders it to pay approximately $138 million in disgorgement, approximately $28 million in prejudgment interest, and an $83 million civil penalty. The SEC's order concerning Passi finds that he willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, orders him to pay a $250,000 civil penalty, and imposes associational, penny stock, and supervisory bars.

In a parallel action, the U.S. Attorney's Office for the Southern District of New York today announced criminal resolutions with Morgan Stanley and Passi. The SEC's ordered disgorgement and prejudgment interest for Morgan Stanley will be deemed partially satisfied by the forfeiture and restitution paid by the firm, which totals $136,531,223, pursuant to its criminal resolution.

See Press Release - https://www.sec.gov/news/press-release/2024-6